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COMMERCE: MR HABASHKIN

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TO AMEMBASSY BOGOTA

INFO AMEMBASSY BRASILIA

AMEMBASSY LONDON

AMCONSUL RIO DE JANEIRO

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E. O. 11652: N/ A

TAGS: EGEN, COLOMBIA

SUBJECT: COFFEE - GOMEZ- JARAMILLO COMMENTS

REF: BOGOTA 4067 AND A-115

1. STATEMENTS OF GOMEZ- JARAMILLO REPORTED IN REFTEL AS WELL AS THOSE FORMALIZED IN COFFEE POLICY MEMORANDUM HANDED TO UNDER SECRETARY CASEY (A-115) ARE SOURCE OF PUZZLEMENT FOR DEPARTMENT IN THAT IT IS DIFFICULT TO FATHOM PRECISELY WHAT GOMEZ- JARAMILLO MEANS. FOLLOWING MAY BE HELPFUL TO EMBASSY
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IN ANY FURTHER CONVERSATIONS WITH HIM OR OTHER COLOMBIAN OFFICIALS, BEARING IN MIND THAT COLOMBIA IS CURRENTLY BENEFITTING FROM EXTRAORDINARILY FAVORABLE COFFEE MARKET CONDITIONS.

2. IN FIRST PARAGRAPH REFTEL, GOMEZ REPORTEDLY SAID " PRODUCING COUNTRIES HAD OFFERED THE CONSUMING COUNTRIES A PRICE QUOTA ARRANGEMENT AT RECENT MEETING ON ICA IN LONDON" AND " PRODUCERS RECEIVED NO ANSWER FROM THE CONSUMERS." THIS PRESUMABLY REFERS TO THE DECEMBER 1972 ICO COUNCIL MEETINGS WHICH SOUGHT AGREEMENT ON QUOTA- PRICE ARRANGEMENTS FOR THE REMAINDER OF THE 1972/73 COFFEE YEAR (SEE ALSO BOGOTA' S 1326). DISCUSSIONS OF THAT COUNCIL SESSION WERE FULLY REPORTED IN LONDON' S 11794, 11928, AND 11985, ALL OF WHICH WERE REPEATED BOGOTA. AT THAT TIME, IN VIEW OF RAPID PRICE RISES OF PAST YEAR, U. S. AND MOST OTHER

CONSUMERS INSISTED ON ARRANGEMENT WHICH, IF QUOTAS WERE ADOPTED, WOULD AUTOMATICALLY SUSPEND QUOTAS IF PRICES ROSE ABOVE LEVELS THEN PREVAILING. SEVERAL IMPORTANT CONSUMERS (BUT NOT THE U. S.) INSISTED ON PRICE ROLL- BACK. WHILE ACCEPTING PRINCIPLE OF POSSIBLE QUOTA SUSPENSION, PRODUCERS (LED BY BRAZIL, WHICH ACTED AS SPOKESMAN) INSISTED ON ALLOWING PRICES RISE APPRECIABLY FURTHER BEFORE TRIGGERING SUSPENSION. THESE POSITIONS AND VARIOUS ALTERNATIVES WERE DISCUSSED AND ARGUED AT LENGTH. CONSUMER PROPOSAL, SUPPORTED ACTIVELY OR TACITLY BY SIXTEEN PRODUCING COUNTRIES, WAS VOTED DOWN BY OVERWHELMING STRENGTH OF BRAZIL, COLOMBIA AND OTHER PRODUCERS. ONLY PROPOSAL WHICH PRODUCERS SUBMITTED TO VOTE WAS PORTUGUESE SPONSORED DRAFT WHICH WAS DEFEATED. IN VIEW OF LENGTHY AND DETAILED DISCUSSIONS, CULMINATING IN THESE VOTES, GOMEZ- JARAMILLO VIEW THAT ANY PRODUCER PROPOSAL WENT UNANSWERED BY CONSUMERS CANNOT BE ACCEPTED. MUCH OF THE DETAILED DISCUSSIONS DID INVOLVE ONLY THE U. S. AS DESIGNATED CONSUMER NEGOTIATOR AND THE BRAZILIAN OR IVORY COAST DELEGATE AS DESIGNATED PRODUCER SPOKESMAN. PERHAPS GOMEZ- JARAMILLO WAS NOT INFORMED BY THESE PRODUCER SPOKESMEN OF THE DETAILS OF THEIR DISCUSSIONS.

3. THE MEMORANDUM HANDED TO UNDER SECRETARY CASEY IS RELIMITED OFFICIAL USE

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plete with inaccuracies. ON PAGES 5 AND 6 THERE IS A DESCRIPTION OF " POINTS TO NEGOTIATE" IN A NEW COFFEE AGREEMENT WITH A STATEMENT THAT SUCH A PROJECT " HAS BEEN PRESENTED TO THE U. S. AND OTHER CONSUMING COUNTRIES" BUT THAT " THIS PROPOSAL DID NOT EVEN DESERVE AN ANSWER". WHILE ALL OF THE POINTS MENTIONED HAVE BEEN REPEATEDLY EXPOUNDED BY COLOMBIAN DELEGATES AND HAVE BEEN DISCUSSED IN VARIOUS EARLIER

ICO MEETINGS AND PRIVATE TALKS, THE SPECIFIC REFERENCE HERE APPEARS TO BE TO THE COLOMBIAN PROPOSALS AND COMMENTS ON RENEGOTIATION OR EXTENSION OF THE ICA OF 1968, AND CONTAINED IN ICO DOCUMENTS EB-1072, OF DEC.17, 1972 AND EB-1072, REV.1 OF FEB. 18, 1972 AND WP- AGREEMENT, NO.5 OF APRIL 19, 1972. THESE DOCUMENTS WERE TABLED FOR CONSIDERATION IN THE CONTEXT OF RENEGOTIATION OF THE ICA BUT SUCH RENEGOTIATIONS HAVE NEVER YET SERIOUSLY COMMENCED. CONSEQUENTLY, ALTHOUGH CONSIDERED BY THE WORKING GROUP ON RENEGOTIATION IN MARCH 1972, THEY HAVE NEVER REALLY BEEN FULLY DISCUSSED AND CERTAINLY NOT " ANSWERED" BY EITHER PRODUCERS OR CONSUMERS- BUT THE IMPLICATIONS OF THE STATEMENT IN THE MEMORANDUM ARE HARDLY WARRANTED.

4. AGAIN, IN THE COLOMBIAN MEMORANDUM IT IS SAID THAT THE ICA IS NOT OPERATING, THAT AS FROM OCT. 1 " THERE WILL ONLY BE A FORUM IN LONDON THROUGH WHICH IT WILL BE POSSIBLE TO NEGOTIATE A NEW AGREEMENT." IT IS QUITE TRUE THAT THE U. S. PLAYED A LEADING ROLE IN BRINGING ABOUT THIS RESULT. THE ALTERNATIVE, AS WAS WIDELY AGREED AND AS GOMEZ- JARAMILLO HIMSELF AGREED PRIVATELY WITH THE U. S. DEL IN LONDON, WAS SIMPLY A FAILURE TO AGREE ON ANYTHING AND AN ABRUPT TERMINATION OF THE ICA ON SEPTEMBER 30, 1973 WITH ALL FUTURE NEGOTIATIONS SHIFTING TO SOME OTHER FORUM (PROBABLY UNCTAD). GOMEZ- JARAMILLO HIMSELF INDICATED AT A MARCH 9, 1973 PRESS CONFERENCE IN BOGOTA THAT THERE WAS NO POSSIBILITY OF EITHER NEGOTIATING A NEW ICA OR EXTENDING THE 1968 ICA UNCHANGED. ADDRESSING THE 31 ST NATIONAL CONGRESS OF COFFEE GROWERS IN COLOMBIA IN LATE MARCH 1973 HE EXPRESSED SIMILAR VIEWS. THE U. S. ROLE HERE WAS NOT ONE OF DECIDING TO " END THE AGREEMENT" BUT RATHER ONE OF PRESERVING THE ICO AS A NEGOTIATING FORUM (MUCH DESIRED BY COLOMBIA AND BRAZIL). WE HAVE REPEATEDLY MADE CLEAR THAT WE ARE FULLY PREPARED TO COMMENCE LIMITED OFFICIAL USE

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NEGOTIATIONS AS SOON AS CONDITIONS ARE DEEMED RIPE TO CONSIDER A NEW, OPERATIVE COFFEE AGREEMENT. DOES GOMEZ- JARAMILLO NOW MEAN TO SUGGEST HE REALLY BELIEVED IN APRIL 1973 THERE WAS ANY REMOTE POSSIBILITY OF NEGOTIATING SUCH A NEW, OPERATIVE ICA TO ENTER INTO FORCE BY OCTOBER 1, 1973? IF SO, WE BELIEVE HE HAD LITTLE COMPANY. IN ANY CASE, THE IMPLIED LINKAGE BETWEEN THE U. S. DEVALUATION AND U. S. ACTIONS IN THE ICA IS UNWARRANTED.

5. THE MEMORANDUM ALSO APPEARS TO SUGGEST (PAGE 4) THAT THE U. S. IS ALONE IN AFFIRMING THAT THERE EXISTS EQUILIBRIUM BETWEEN PRODUCTION AND CONSUMPTION OF COFFEE. THE PRESENT STATE OF THE MARKET APPEARS TO INDICATE THIS APPRAISAL IS WIDELY SHARED. GOMEZ- JARAMILLO HAS REPEATED-

LY POINTED OUT THE SHRINKAGE OF WORLD COFFEE STOCKS AND THE OUTLOOK FOR A TIGHT SUPPLY. AND, ON JUNE 8, REUTERS QUOTED BRAZIL'S FINANCE MINISTER AS SAYING " COFFEE IS SCARCE AND I BELIEVE IT WILL REMAIN SCARCE FOR THE NEXT FOUR OR FIVE YEARS." IT IS PRECISELY THIS TIGHT SUPPLY OUTLOOK WHICH PUTS THE PRODUCERS IN THE DRIVER'S SEAT TODAY; WHICH RENDERS UNNECESSARY FOR THE IMMEDIATE FUTURE ANY QUOTA RESTRICTIONS ON COFFEE SUPPLY; AND WHICH COULD MAKE IT POSSIBLE FOR A PRODUCERS' COMMERCIAL VENTURE TO CONTROL THE MARKET FOR A WHILE. BUT SUCH PRODUCER ACTIONS NOW CAN HARDLY BE EXPECTED TO FOSTER CONSUMER ENTHUASM FOR AN EVENTUAL REVERSION TO A SORT OF CONTROLS ON THE COFFEE SUPPLY WHEN BURDENSOME SURPLUS PRODUCTION AND STOCKS REAPPEAR AS MANY PEOPLE THINK THEY ARE SURE TO DO A FEW YEARS HENCE.

6. WE BELIEVE THAT THE ABOVE INFORMATION SHOULD BE USED IN INFORMAL DISCUSSIONS WITH GOMEZ. HOWEVER, WE THINK IT IS UNDESIRABLE TO DIGNIFY THE COLOMBIAN MEMORANDUM BY RESPONDING TO IT

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